

Message Text

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SUBJECT: CHANGE IN GOP RICE SUPPORT PRICE

1. MINISTRY OF AGRICULTURE (MIDA) HAS ANNOUNCED THAT THE SUPPORT PRICE FOR UNMILLED RICE AS OF APRIL 20, 1976 WILL BE \$8.90/QUINTAL (100 LBS) FOR CLASS "A" (LONG-GRAIN) RICE, AND \$7.40/QUINTAL FOR CLASS "B" (MEDIUM-GRAIN) RICE. PREVIOUS SUPPORT PRICE WAS \$10.00/QUINTAL. MIDA INDICATES THAT NEW SUPPORT LEVELS ARE DESIGNED TO PROVIDE A FAIR RETURN TO THE GROWER WHILE TAKING INTO ACCOUNT RECENT PRICE DECREASES IN HIS COST INPUTS (DECLINES IN FERTILIZER PRICES WERE SPECIFICALLY CITED). IDEALLY, RESOURCES NOW EMPLOYED IN THE PRODUCTION OF SURPLUS RICE WOULD BE DIVERTED TO OTHER CROPS - CORN AND SORGHUM - FOR WHICH PANAMA IS PARTIALLY DEPENDENT ON IMPORTS. MIDA ANTICIPATES THAT ITS SUPPORT PRICES OF \$8.50/QUINTAL FOR CORN AND \$7.50/QUINTAL FOR SORGHUM WILL INDUCE CROP DIVERSIFICATION.

2. THE GOP'S PROGRAM TO ACHIEVE SELF-SUFFICIENCY IN RICE PRODUCTION HAS BEEN VERY SUCCESSFUL: PANAMA EVOLVED FROM A RICE IMPORTER IN 1972 TO A NET RICE EXPORTER IN 1973. UNFORTUNATELY, THIS DEVELOPMENT COINCIDED WITH RECORD RICE CROPS IN OTHER AREAS AND A RESULTING DECLINE IN WORLD MARKET PRICES. PANAMA'S 1974 AND 1975 RICE SURPLUSES HAVE NOT FOUND READY BUYERS. INADEQUATE STORAGE FA-

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CILITIES HAVE RESULTED IN CONSIDERABLE LOSSES TO THE GOP, BOTH

IN GRAIN SPOILAGE AND IN HIGH TRANSPORTATION AND STORAGE COSTS. NOW THE GOP IS FACED WITH ADDITIONAL EXPENDITURES IN TRYING TO SELL RICE ON THE DRPRESSED WORLD MARKET AT A PRICE CONSIDERABLY LOWER THAN ITS INVESTMENT.

3. COMMENT: THE REACTION TO THE GOP'S PRICING POLICY HAS BEEN SUBDUED. INFORMAL CONTACTS WITH RICE PRODUCERS INDICATE THAT MIDA WAS UNDER CONSIDERABLE PRESSURE TO EXTRICATE ITSELF FROM THE UNTENABLE POSITION OF BUYING UNNEDED RICE AT AN ARTIFICIALLY HIGH PRICE. RECENT DROP IN FERTILIZER PRICES HAS PROVIDED A CONVENIENT JUSTIFICATION FOR MIDA'S ATTEMPT TO SHIFT PRODUCTION TO OTHER CROPS. ENTIRE EPISODE HAS PROVIDED GRAPHIC ILLUSTRATION OF: (A) THE VULNERABILITY OF AN EXPORT-ORIENTED AGRICULTURAL DEVELOPMENT PROGRAM

TO FLUCTUATIONS IN INTERNATIONAL COMMODITY PRICES, AND (B) THE PITFALLS INHERENT IN SUBSTITUTING EXHORTATIONS TO "PRODUCE MORE" FOR PLANNED PRODUCTION TARGETS. USAID'S COORDINATED GRAIN STORAGE AND MARKETING PROJECT SHOULD INCREASE THE ABILITY OF THE AGRICULTURAL MARKETING INSTITUTE (IMA) TO DAL WITH SIMILAR SURPLUSES IN THE FUTURE. MEANWHILE, 15,000 METRIC TONS OF MILLED RICE IS BEIND ADVERTISED FOR BIDS.

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